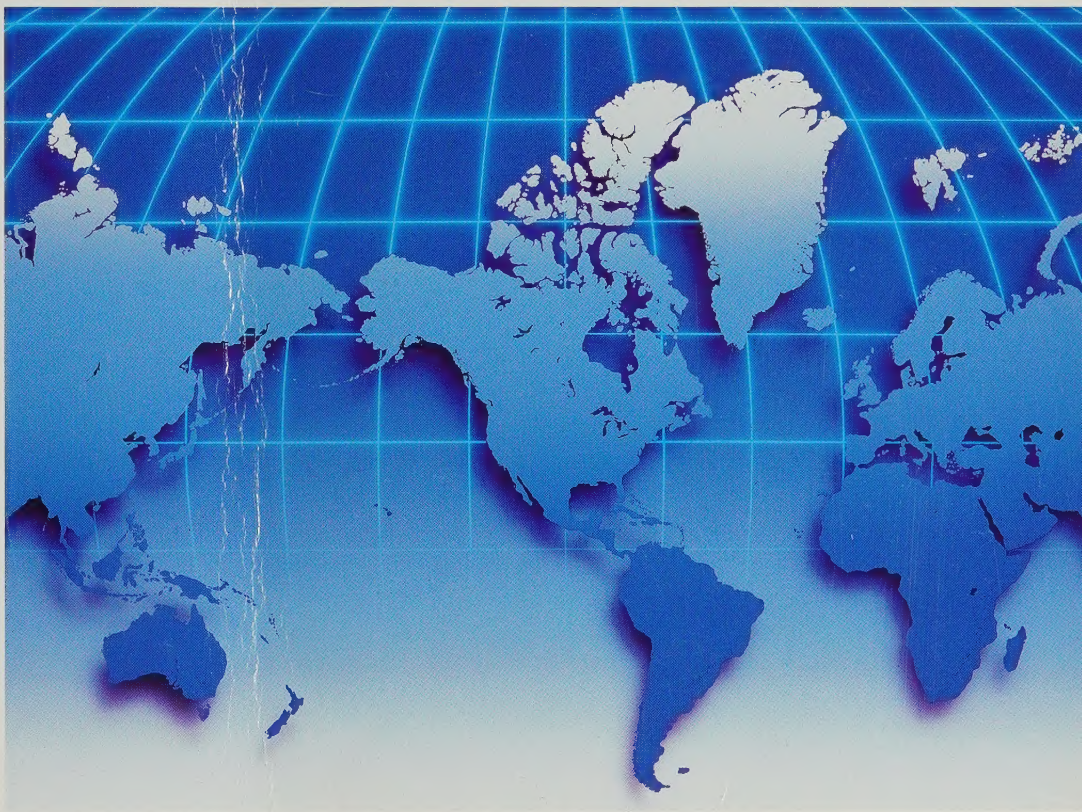
Annual Report 1989

AMCA International Limited



Providing Worldwide:

Construction Products and Services

Engineering Services

Industrial Products

AMCA International Limited

The Company was initially incorporated as Dominion Bridge Company, Limited in 1882, reincorporated with the same name under the Companies Act of Canada on July 30, 1912 and continued under the Canada Business Corporations Act effective May 8, 1980. On June 1, 1981, the Company name was changed to AMCA International Limited.

Company Description

AMCA International serves three primary markets: non-residential construction, energy and industrial. Principal products and services include pre-engineered buildings, construction services, steel fabrication and erection, petrochemical-related engineering services, compaction equipment, food equipment and aerospace components. AMCA employs about 10,000 people, has 34 operating locations throughout North America and Europe and markets its products and services on a worldwide basis. The Company's operations are now aligned in the following industry segments:

Construction Products and Services

Pre-engineered building systems; design, engineering, construction of industrial and commercial buildings; steel fabrication and erection; general construction and engineering services.

Engineering Services

Turnkey petroleum refineries, petrochemical and industrial plants; pile-driving equipment.

Industrial Products

Beverage, dairy, food, pharmaceutical and cosmetics processing systems and packaging machinery; rotary positive displacement pumps; soil compaction and sanitary landfill equipment; aerospace components; metal forming machinery.

Contents

Financial Highlights
(Stated in millions)

	1989	1988 (Restated)
Revenues	$1,402.1	$1,288.6
Income from continuing operations	35.4	15.5
Income from discontinued operations	37.8	9.9
Net income	73.2	25.4
Total assets	1,019.0	1,186.9
Long-term debt (including current portion)	178.7	317.9
Shareholders' equity	524.4	541.6

Per Common Share Data
(Stated in dollars)

	1989	1988 (Restated)
Continuing operations	$.08	$(.11)
Discontinued operations	.28	.12
Earnings	.36	.01
Cash dividends	.15	–
Book value	2.42	2.22
Common stock price (high/low)		
*Toronto Stock Exchange	$4.95/3.70	$9.375/3.25
New York Stock Exchange	$4.125/3.125	$7.125/2.625

All figures in this Annual Report are stated in U.S. dollars unless otherwise noted.

*In Canadian dollars.

Note: In the Industry Segment Review found on pages 6-15 in this annual report, certain financial data have been restated for comparability. Therefore, results for the three segments will differ from those reported in Note 10 to the Consolidated Financial Statements.

William R. Holland (left), chairman and chief executive officer, and Robert C. Kelley, president and chief operating officer.

In the 1988 annual report, we predicted "continuing improvement in 1989 related to stronger markets for most of our products and services, improved profit margins and a further reduction in fixed charges." We also stated our intention to "continue to pursue the goal of further focusing and simplifying our operations."

We are pleased to report that AMCA experienced a very rewarding and productive year in 1989 on all of these fronts. We produced higher earnings, further improved our financial strength and positioned the Company for even better results in the years ahead.

A major strategic decision was made in 1989 to exit our Industrial Automation segment (Giddings & Lewis) through a public offering. The transaction was completed in July and resulted in approximately $130 million in cash and a gain of $25 million. This move, while negatively impacting earnings in the short run, reflected our long-range views of the machine tool industry and our conviction that shareholder value would be optimized if AMCA realized on its investment in Giddings & Lewis at this time.

Some other major highlights for the Company during the year were:

– Net earnings of $73 million (including the gain of $25 million relating to the sale of Giddings & Lewis) – the highest level in the Company's history;

– Additional reduction of debt obligations and preferred shares by $194 million, further reducing fixed charges for interest and preferred dividends;

– The acquisition of Superior Stainless, a manufacturer of sanitary fittings, valves and pumps, to complement the Food Equipment businesses;

– Further focusing of our core businesses through the sale of the Braden, Speedstar and AmClyde units;

– New orders booked of $1.4 billion, resulting in a year-end backlog of $668 million compared with $624 million at the end of 1988;

– Payment of a $20 million cash dividend to common shareholders, equal to US 15 cents per common share; and

– Relocation of AMCA's corporate headquarters to Charlotte, North Carolina from Hanover, New Hampshire.

Now that the Company has been restored to health and repositioned for improved profitability, management's attention will be focused increasingly on enhancing AMCA's earnings growth and return on common equity. Simply put, our objective is to at least double earnings from continuing operations and generate a fully taxed return on common equity of not less than 15 percent within the next 3-5 years.

Financial Results

For the year, AMCA generated a net profit of $73 million on sales of $1.4 billion. After providing for $25 million in dividends to preferred shareholders in 1989, earnings per common share amounted to 36 cents compared to 1 cent per share in 1988. Average common shares outstanding increased from 79 million in 1988 to 135 million in 1989, as a result of two common stock rights offerings during 1988.

Income from continuing operations of $35 million was more than double 1988's earnings of $15 million. This increase resulted primarily from a significant reduction in interest expense and better earnings from ongoing operations. Earnings from ongoing operating segments increased $4 million over 1988 to $77 million, with improvement coming from all segments except Construction Products and Services, which had an excellent year in 1988. The reduced interest expense resulted primarily from cash generated by the two equity issues in 1988 ($261 million) and the substantial cash derived from 1989 divestitures.

Earnings from discontinued operations totaled $13 million in 1989, representing income generated by Giddings & Lewis prior to its sale in July of last year. The loss of these earnings in 1990 will be partially offset by lower net interest costs resulting from the cash proceeds derived from the sale. In addition, we will benefit from expected earnings from our Aerospace operations, which were reclassified as continuing operations effective October 1, 1989.

Operating Review

AMCA's operating profile today is much simpler and more focused than it was only three years ago.

In the process of changing the mix and focus of our businesses, we have also significantly improved the quality and level of operating earnings. On a comparative basis, the operating earnings of AMCA's ongoing segments have increased 28 percent from $60 million in 1986 to $77 million in 1989. Our ongoing businesses generated an average operating return on capital employed of 24 percent last year, essentially unchanged from 1988. All of AMCA's principal businesses were profitable in 1989 and most of them command leadership positions in their markets.

New orders booked during 1989 totaled over $1.4 billion, resulting in a backlog of $668 million at year end. This compares with bookings of approximately $1.4 billion in 1988 and a backlog of $624 million (on a comparable basis) as we began 1989. All segments reported improvements in bookings and backlog with the exception of Construction Products and Services in which AMCA Construction experienced a slowdown compared to 1988. Gross margins in the backlog also continued to improve over the past year, although pricing remains competitive in a number of markets.

Despite some concern over the general economic outlook in North America in the year ahead, we expect further operating improvements in 1990, representing a continuation of the renewed health and stability experienced by the Company for the last two years.

Balance Sheet and Financing Activities

AMCA's financial condition continued to improve in 1989. Actions taken during the past three years to reduce debt and increase cash and equity have also served to reduce net interest costs from $33 million in 1987 to $11 million in 1989.

Cash generated from operations of $72 million, in combination with $164 million in net proceeds from divestitures (primarily Giddings & Lewis and Braden), was used to redeem $46 million in preferred shares and to repay $148 million in borrowings. In addition, AMCA spent $17 million for capital improvements and $14 million for the acquisition of Superior Stainless. Payment of dividends and interest totaled $57 million, including a $20 million cash dividend to common shareholders, equal to US 15 cents per common share.

As a result of these actions, AMCA's balance sheet at year-end showed cash and short-term investments of $143 million against total debt of $182 million and a very healthy ratio of debt to total capital of .26:1. To put our current position in perspective, AMCA's total debt exceeded $700 million at the end of

Geographically, AMCA conducts business from over 65 locations in 12 countries but remains predominantly a North American-based company. Over 80 percent of sales and two-thirds of ongoing operating earnings were generated in the U.S. and Canada in 1989.

Our 13 operating divisions—compared with 23 divisions in 1986—serve three primary markets: non-residential construction, energy and industrial. Approximately one-half of AMCA's volume is generated from non-residential construction markets through Varco-Pruden, Stran, ENCORP, JESCO and Dominion Bridge. Roughly one-third of our volume—including sales of the Food Equipment businesses, BOMAG and our Aerospace operations—is derived from industrial markets. The remainder of AMCA's volume is generated through the provision of engineered products and engineering/construction services to energy related markets.

Our long range vision for the Company is perhaps best expressed in AMCA's mission statement: "To build a financially strong industrial enterprise focusing on relatively large, autonomous market-leader businesses providing quality manufactured products and engineering/construction services to meet the changing needs of commercial and industrial markets on a worldwide basis."

1986, which resulted in a ratio of debt to total capital of .60:1.

We also expanded the Company's revolving credit facility by $100 million to provide total availability of up to $250 million and signed an agreement which could make available up to $100 million of subordinated debt at very favorable rates. Combining cash plus unutilized borrowing capacity now in place, AMCA has financial resources exceeding $500 million available to fund the growth of our existing businesses and to pursue meaningful acquisitions.

AMCA's financial strength is now fully restored. We are well positioned to weather potential downturns in the North American economy and intend to judiciously utilize available cash and borrowing capacity, when conditions are right, to add to our current earnings base. With North American earnings sheltered by over $400 million in tax loss carryforwards, we expect to generate significant additional cash from operations in the future with which to continue enhancing AMCA's financial strength.

Management and Directors

A key management change in 1989 involved the appointment of Joseph A. Scopelliti as senior vice president and chief financial officer of AMCA. Mr. Scopelliti brings a strong background in operational control and planning as well as substantial experience in the corporate finance and treasury functions to his new position with the Company.

We also welcomed six new directors to AMCA's Board of Directors at the annual meeting in April. Jim Courtney, Bob Field, Jim Grant, Bob Kelley, John McDonald and Barry Scott bring a wealth of experience to our Board.

Outlook and Strategies

Our outlook for 1990 envisions modest growth and improved profitability from AMCA's continuing businesses in somewhat uncertain markets. The anticipated improvement stems primarily from cost reduction and performance improvement activities and not from expectations of significant volume increases. Assuming no major acquisitions are completed in 1990, further reductions in fixed charges – particularly interest expense and preferred dividends – are expected as the benefits of AMCA's strong cash position and 1989 debt reduction activities are fully realized. Again, no federal taxes will be provided on our North American earnings in 1990 due to available operating tax loss carryforwards.

The primary risk to our 1990 outlook relates to a possible economic slowdown that could turn out to be more pronounced than the so-called "soft landing" scenario on which our planning is based. While the risk of a recession may be more pronounced than a year ago, the markets we serve are expected to avoid a deep or extended downturn. Inflationary pressures should not worsen measurably, and interest rates are generally expected to decline in North America. Major overseas economies could experience rising inflationary pressures, leading to higher interest rates and a slower growth.

AMCA's key financial objective, as stated at the outset, will be to maximize shareholder value through doubling earnings from continuing operations and achieving a fully taxed return on common equity of not less than 15 percent, within the next 3-5 years. AMCA's two-pronged strategy to accomplish this objective will be based on: (1) a continuing, unrelenting focus on operations and (2) an aggressive program to grow existing businesses and make meaningful acquisitions to better position AMCA for the years ahead.

While we will always be prepared to reevaluate any of our businesses which fail to meet our performance expectations or no longer fit our strategic objectives, we do not contemplate divestitures of any significance in 1990. It is now time to capitalize on AMCA's financial strength and move into an era of sustained growth, profitability and meaningful returns for our shareholders. Management is confident that these goals will be realized.

We again express our appreciation to all of those whose support has made AMCA's improved results possible – our major shareholder, Canadian Pacific Limited, our directors, our employees and our valued customers.

William R. Holland
Chairman and Chief Executive Officer

Robert C. Kelley
President and Chief Operating Officer

March 9, 1990

Construction Products and Services

This segment serves North American non-residential construction markets through the Buildings, Construction and Dominion Bridge operations. In 1989, these businesses produced sales of $742 million, a 7 percent increase over comparable 1988 results. Operating profits of $24 million in 1989 were down 22 percent from the 1988 level of $31 million due to some softening in the marketplace in the second half of the year plus isolated cost problems, particularly in Buildings and at Dominion Bridge—Ontario.

The outlook for this segment remains positive over the long term given the market-leader positions these businesses enjoy. The near term outlook is somewhat tempered by our expectation of an economic "soft landing" for the North American economies.

($ millions)	1989	1988
Sales	$ 327	$ 306
Operating Profit	19	25
Average Net Capital Employed	45	43
Return on Investment (%)	43%	57%

AMCA Buildings, comprised of Varco-Pruden and Stran, is headquartered in Memphis, Tenn., and is engaged in the manufacture of pre-engineered metal buildings for low-rise, non-residential construction markets. Building systems, such as this corporate aircraft hangar, are marketed throughout the United States through some 1,900 independent authorized builders and internationally by Span International, an AMCA subsidiary headquartered in Nassau, Bahamas.

Varco-Pruden
Stran

1989 results for Buildings benefited from the strategy initiated several years ago to achieve leadership status in U.S. markets. During 1989, our market share continued to increase and is now estimated to be on a par with the other leading competitor. Sales for the year increased to $327 million, up 7 percent from 1988. Profits, however, did not keep pace with the sales increase and ended the year at $19 million, down from the record $25 million achieved in 1988. The lower profitability was attributable to an increase in competitive pricing due to market softness in the second half of 1989, operating cost problems in some locations and planned expenditures to support future growth.

Development of new engineering and marketing support systems designed to improve productivity and enhance service levels progressed in 1989, with implementation expected in 1991. In addition, close to 200 new builders were added to the distribution network during the year, continuing expansion of geographic coverage.

For the near term, our outlook remains cautious given the softening trend the industry experienced during the latter half of 1989. For the longer term, we anticipate that the general market for low-rise, non-residential buildings will mirror the economy and that metal buildings will capture a greater share of the overall market due to their cost advantage over conventional construction methods.

Varco-Pruden and Stran will continue their aggressive market-leader strategy during the coming year with greater emphasis on productivity and cost control in light of the current outlook for an economic "soft landing."

($ millions)	1989	1988
Sales	$ 164	$ 163
Operating Profit	1	3
Average Net Capital Employed	5	5
Return on Investment (%)	12%	63%

AMCA Construction was organized in 1989 to enhance business development in the area of construction services. It is comprised of two non-residential building contractors—JESCO, headquartered in Tupelo, Miss. and ENCORP, based in Cincinnati, Ohio.

JESCO
ENCORP

JESCO provides specialty non-residential construction services to markets in the southeastern United States whereas ENCORP provides general construction services in the eastern United States and selected foreign countries.

JESCO and ENCORP also purchase annually over $25 million of pre-engineered building systems manufactured by Varco-Pruden and Stran for use in their projects.

Results for 1989 were disappointing. While JESCO had a good year, ENCORP revenues fell short of expectations and produced a loss for the year. ENCORP's order backlog declined during the first half of 1989 due to an inability to book several major projects, but this trend was reversed in the second half with the receipt of two large overseas contracts.

For 1990, we anticipate that construction opportunities will remain strong in the Sunbelt but continue at lower levels in the Midwest and Northeast. This trend is positive for JESCO but may prolong domestic order difficulties for ENCORP. On the other hand, ENCORP's foreign activity should remain strong based on the booking performance in the latter half of 1989.

As part of a longer term strategy, AMCA Construction will consider selective acquisitions to expand its geographic presence and broaden service offerings.

($ millions)	1989	1988
Sales	$ 250	$ 223
Operating Profit	4	3
Average Net Capital Employed	53	58
Return on Investment (%)	8%	6%

Dominion Bridge, headquartered in Toronto, Ontario, is a major fabricator of heavy steel products and provider of erection services in Canada and selected foreign countries. Dominion Bridge serves its markets from locations throughout Canada and is closely tied to the heavy industrial and energy markets in that country.

The 56-story Canada Trust Tower, capped by a 120-foot finial (right foreground), is the latest of many Dominion Bridge projects that dot the Toronto skyline.

Dominion Bridge

Results in 1989 were, on balance, improved over 1988, but remain disappointing. Sales of $250 million were up 12 percent with a strong performance at the Quebec operation offsetting disappointing results in Ontario. Dominion Bridge reported operating profits of over $4 million in 1989 which resulted in a modest return on investment of 8 percent. Specific steps taken during the year to improve performance at the Toronto operation included the appointment of a new general manager and further restructuring of manufacturing operations.

Major accomplishments during 1989 included the completion and successful commissioning of the SkyDome retractable roof in Toronto, expansion of the Dominion Bridge construction business, which is becoming a major competitive factor nationally, and completion of restructuring and consolidations at the Quebec and Winnipeg operations.

For the near term, several difficult challenges remain at Dominion Bridge. A potential slowdown in the Canadian economy, turnaround of the Ontario operation, resolution of SkyDome project claims and continuing improvement in profitability following the restructuring investments made over the past two years are among the most important issues for 1990. Despite these challenges, we are confident that Dominion Bridge will contribute more significantly to AMCA's affairs in the years ahead.

This segment consists of the Litwin Companies based in Houston, Texas, Litwin S.A., based in Paris, France, and MENCK GmbH, headquartered near Hamburg, West Germany. For 1989, sales totaled $208 million, up 25 percent over 1988, and operating profits more than doubled despite continued soft demand in offshore oil production.

While the outlook for these businesses is influenced by the strength of world energy markets, the Litwin Companies are also closely allied to the petrochemical and chemical industries which have been benefiting from high levels of demand for end-products such as plastics and fibers. Demand for the construction of facilities which produce these products is on the increase, particularly in the Soviet Union and developing countries.

($ millions)	1989	1988
Sales	$ 208	$ 167
Operating Profit	6	3
Average Net Capital Employed	11	–
Return on Investment (%)	58%	–

The Litwin Companies provide design, engineering and construction services for oil refineries, petrochemical plants and chemical processors. They are niche players deriving their unique competitive advantage by being more creative, innovative and flexible than their much larger competitors. MENCK is a world leader in the design, manufacture and installation of steam and hydraulic pile-driving hammers for onshore, above water and subsurface applications.

Litwin E&C
Litwin Corporation
ORBA
Litwin S.A.
MENCK

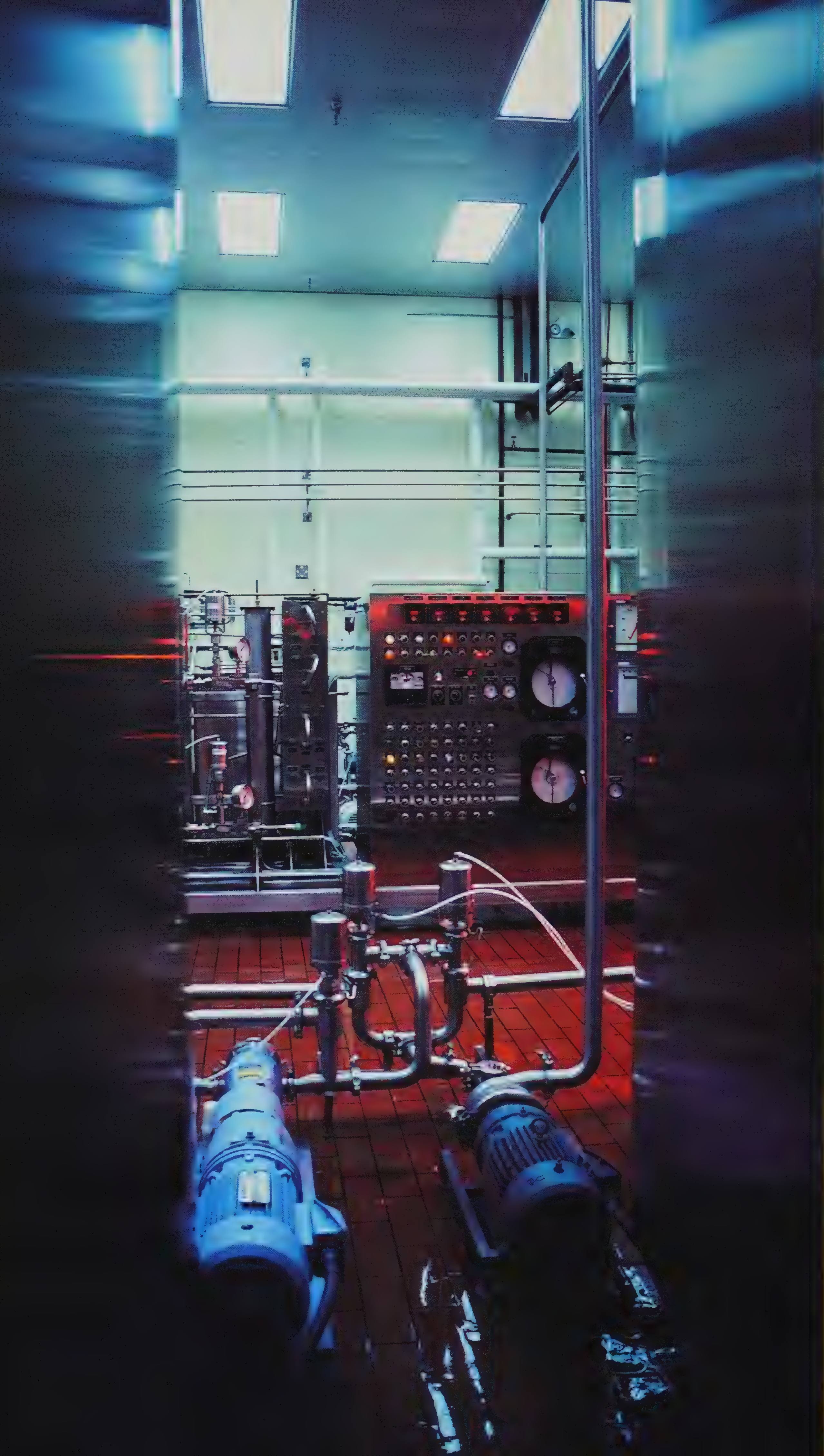
Litwin E&C's customers are a mix of major oil companies and strong independent oil companies, while Litwin S.A.'s primary market focus has been on the USSR and Eastern bloc countries. Both companies frequently expand their own capabilities by entering into joint venture relationships with major companies, giving them access to larger projects and emerging markets.

In 1989, Litwin E&C made significant progress in expanding its capabilities in the areas of polymers and specialty chemicals and through the establishment of an advanced process control and instrumentation group. This diversification will enable Litwin to capitalize on a broader marketplace, while maintaining its uniqueness in process plant engineering and construction.

Results for Litwin S.A. were well ahead of expectations in 1989, and further gains are anticipated in the coming year. With high backlogs at both Litwin E&C and Litwin S.A. and some major prospects in the offing, the overall outlook for Engineering Services is increasingly bright for 1990 and beyond.

MENCK has a very strong market position in offshore hydraulic hammers and is aggressively pursuing the growing onland market. MENCK management believes that its design for onland hammers is the most advanced in the world.

After seven very good years, the offshore markets served by MENCK declined significantly in 1988 and 1989. Despite these depressed markets, MENCK has managed to remain marginally profitable on sharply reduced revenues. While no significant improvement is projected in offshore markets for 1990, Menck will move to increase its participation in the on-land market and capitalize on its strong market position and leading technology in offshore applications.



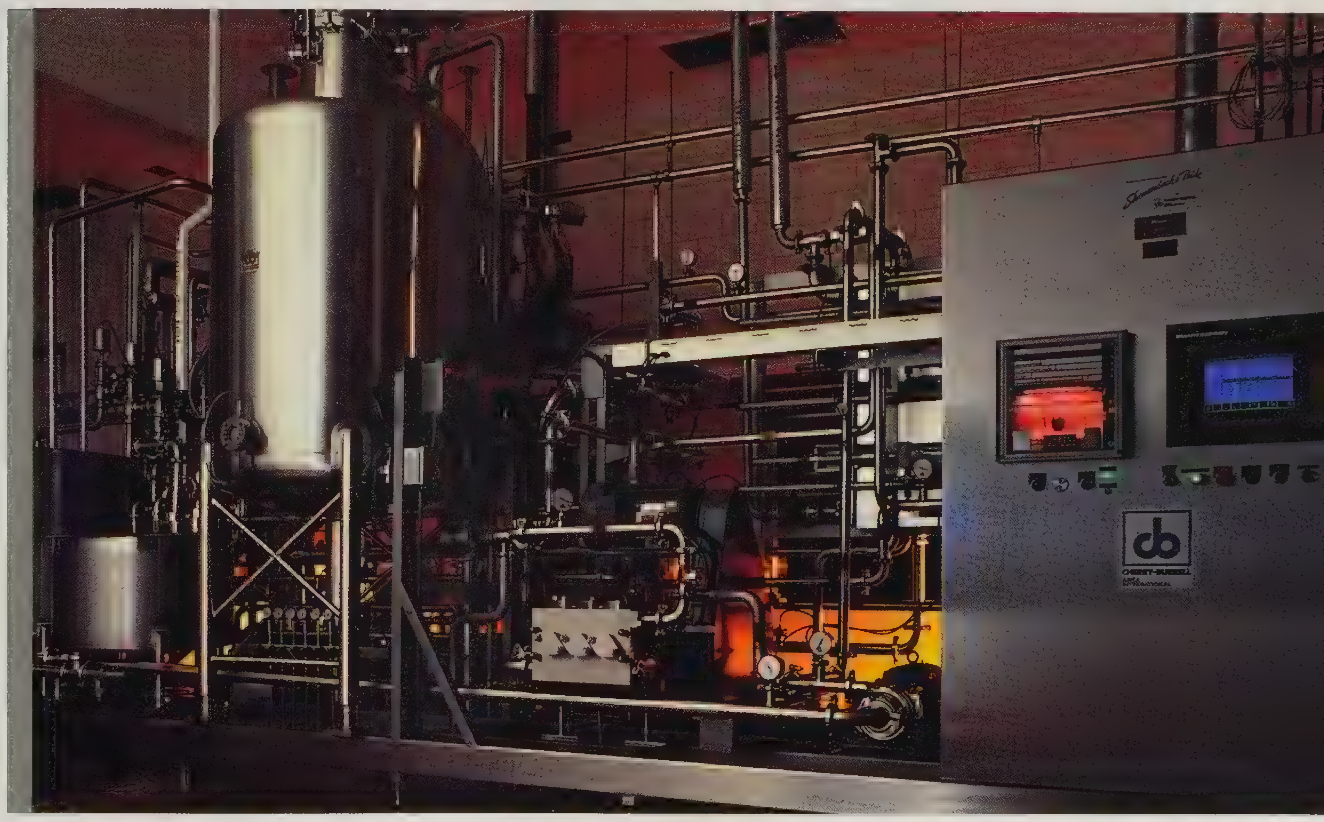
The Industrial Products segment consists of three businesses: Food Equipment, Compaction Equipment and Aerospace. This segment serves a broad cross-section of industrial customers principally in the United States and Europe.

For 1989, sales in the segment reached $455 million on a pro forma basis, up 8 percent from 1988, and operating profits increased to $52 million from $46 million in 1988. Performance in all three businesses was equal to or better than expected as the general industrial markets they serve continued to grow during 1989.

The outlook for Food Equipment and Aerospace is somewhat tied to the expected softening of the North American economy during 1990. Compaction Equipment, which is heavily involved in European markets, should more closely follow those economies, which are expected to remain strong in the coming year.

($ millions)	1989	1988
Sales	$ 149	$ 122
Operating Profit	19	15
Average Net Capital Employed	58	48
Return on Investment (%)	33%	32%

The Food Equipment businesses design, manufacture, and market packaging, fluid handling and process equipment to the food, dairy, beverage and pharmaceutical industries. Products are marketed under such well known names as Cherry-Burrell (carton fillers and process equipment), Waukesha Pumps (positive displacement pumps), Superior Stainless (fittings and valves) and Votator (food process equipment and systems).



Cherry-Burrell
Superior Stainless
Votator
Waukesha Pumps

For 1989, sales were $149 million, up 22 percent over 1988 sales of $122 million. Part of the increase was due to the addition of Superior Stainless for the last seven months of the year, but strong sales growth was also experienced in the pumps and carton filler lines. International sales were very strong in 1989, reflecting record deliveries of carton filler equipment to major foreign markets.

Important investments were made in people, products and production facilities in 1989 to ensure continued growth in sales and profitability. Some of the specific programs undertaken included: (1) expansion of the engineering function to better support product development and systems applications; (2) launching of a quality assurance program to improve the quality of products and services; (3) introduction of four new pump products and the prototyping of three new models of high-speed carton-fillers for introduction in 1990; and (4) purchase of continuous casting equipment for Waukesha Pumps that will result in substantial material cost savings.

Another major development in 1989 involved reorganization of these businesses into three operating divisions along product lines: Packaging, Fluid Handling and Processing. Packaging equipment holds the leading share of the North American market through the Cherry-Burrell carton filler line. Fluid Handling products include Waukesha pumps plus Cherry-Burrell and Superior Stainless fittings and valves. Processing equipment and systems combines Cherry-Burrell tanks and vessels with the Votator heat exchanger lines and capitalizes on our strong reputation for applications know-how in the processing of fats and oils and aseptic processing of fruits, puddings and certain dairy products.

Looking ahead, Food Equipment represents a strong growth opportunity for AMCA with three divisions organized to enhance their market and product strengths through internal development and acquisitions.

($ millions)	1989	1988
Sales	$ 240	$ 235
Operating Profit	25	22
Average Net Capital Employed	99	102
Return on Investment (%)	25%	22%

BOMAG is headquartered in West Germany with other operations in Great Britain, France, Austria, the United States and Canada. It is the leading company worldwide in the design, manufacture and sale of soil compaction and sanitary landfill equipment. It is estimated that BOMAG's market share exceeds its next closest competitor by 1.5 times.

BOMAG

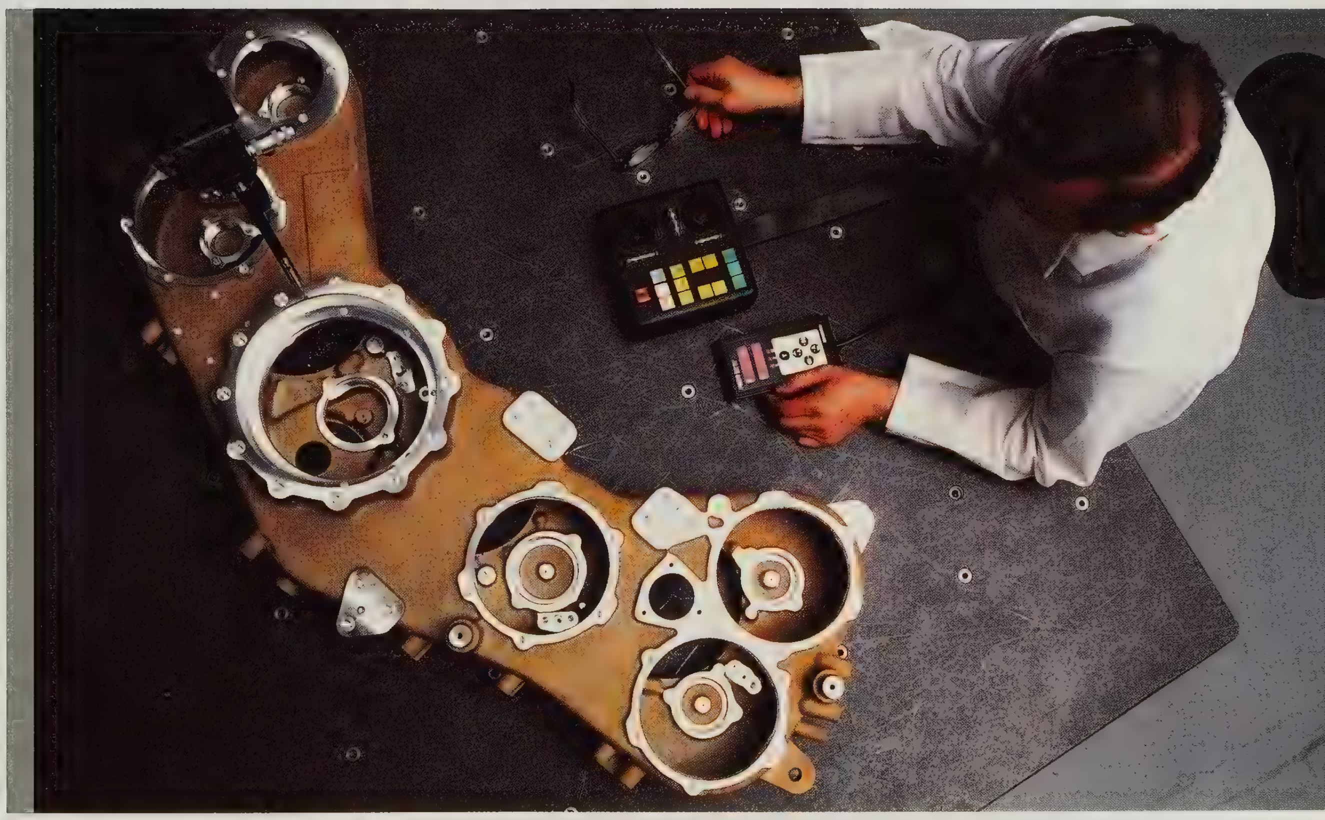
During 1989, BOMAG's objective to increase profitability was achieved. Sales grew modestly to $240 million from $235 million in 1988, while profits rose to a record level of $25 million from $22 million in the prior year.

1989 was also a significant year for BOMAG from a product line perspective. Over 20 new products were introduced during the year, including a software package that assists in selecting the optimum equipment to do a specific compaction task. Other new products included a line of heavy asphalt compactors and a broad range of trench compactors. Innovative products like the ones introduced during 1989 are evidence of BOMAG's commitment to market leadership and to advancing its reputation as the quality leader and the most knowledgeable company in the compaction industry.

With an aging road and bridge infrastructure in North America and Western Europe and the "democratization" process gathering momentum in Eastern Europe, the longer term outlook for BOMAG is very positive. Strategies to address these major trends are currently under review and implementation should begin during 1990. In the shorter term, BOMAG expects continued strength in its European markets but is cautious about the North American economies because of some softening in demand during 1989.

($ millions)	1989	1988
Sales	$ 66	$ 62
Operating Profit	9	8
Average Net Capital Employed	39	42
Return on Investment (%)	22%	20%

The Aerospace operation is comprised of two business units: Fenn Manufacturing, located in Newington, Conn., and Monroe Forgings, based in Rochester, N.Y. Fenn produces a variety of close tolerance machined parts (as shown at right) for both military and commercial aerospace markets plus specialized metal forming and cutoff equipment for general industry. Monroe is a leading manufacturer of forged seamless rings, discs and bars for the commercial aerospace and bearing markets.



Fenn Manufacturing
Monroe Forgings

In late 1988, the Aerospace operation was classified as a discontinued business in anticipation of the sale of Fenn and Monroe. During 1989, efforts to find a suitable buyer at expected values were unsuccessful, leading AMCA management to conclude that the interests of the shareholders would be best served by retaining these businesses. Accordingly, their operating results were reconsolidated beginning October 1, 1989.

Both Fenn and Monroe performed well during 1989. Sales of $66 million on a full year basis were up 6 percent over the $62 million reported in 1988. Profits were also up slightly in 1989 over the prior year. Average return on capital employed improved from 20 percent in 1988 to 22 percent in 1989.

The near-term outlook is mixed with military business under some pressure at Fenn, offset by solid demand in commercial aerospace at Monroe. Longer term, we expect these businesses to continue their consistent profit contributions and attractive levels of return on investment.

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. Differences from accounting principles generally accepted in the United States are discussed in Note 12. Notes 1 and 2 discuss the restatements made in connection with the divestiture of the Industrial Automation segment and an accounting change.

Results of Operations 1989-1988

Sales of $1.4 billion in 1989 increased by 9 percent from $1.3 billion in 1988 with improved activity across all segments of the Company's businesses. Net income for 1989 amounted to $73 million (including a $25 million gain on the sale of the Industrial Automation segment) compared to $25 million in 1988 while per share earnings increased from 1 cent in 1988 to 36 cents in 1989.

Income from continuing operations more than doubled to $35 million from $15 million in 1988. The increase stemmed primarily from lower net interest expense resulting from the application of proceeds from the two common stock rights offerings completed in 1988 as well as proceeds from the sale of businesses. Higher earnings from ongoing segments also contributed to the improved results. After the payment of preferred dividends of approximately $24 million in both years, earnings per common share from continuing operations amounted to 8 cents in 1989 compared to a loss of 11 cents in 1988. Average common shares outstanding increased from 79 million in 1988 to 135 million in 1989 as a result of the two rights offerings noted previously.

Other factors affecting continuing operations include:

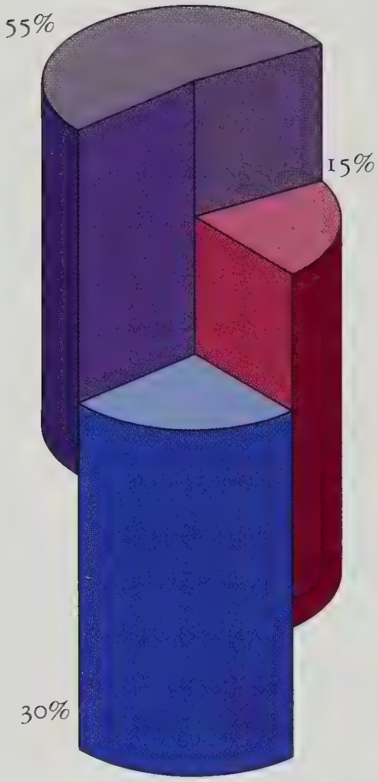
– Interest – net, which declined significantly from $28 million in 1988 to $11 million in 1989. If the proceeds from the sale of businesses in 1989 ($164 million) had been available for the full year, net interest expense would have been approximately one-half of the amount reported.

– Foreign currency losses, which decreased from $8 million in 1988 to $4 million in 1989. This resulted from management's decision to take advantage of a significant weakening of the Deutsche Mark (DM) in the middle of the year. The Company purchased DMs at very favorable exchange rates and retired its DM 100 million bond issue in December. In addition, the Company has hedged its remaining DM 150 million bond issue. This action will result in future exchange rate movements relating to this debt having no impact on the Company's operating results.

– Income taxes, the majority of which represent taxes on non-North American earnings, increased from $9 million in 1988 to $10 million in 1989. The Company does not provide federal taxes on its North American earnings due to the utilization of loss carryforwards.

The major factors affecting the results of each segment are described below. In order to facilitate a better understanding of the operations of the Company, the segments have been realigned to more accurately reflect the general markets they serve.

Sales by Segment



Construction Products and Services	$742
Engineering Services	$208
Industrial Products	$407

Construction Products and Services

Sales of $742 million are 17 percent higher than 1988's level of $635 million, while operating profits declined by 15 percent from $28 million in 1988 to $24 million.

1988 represented a record earnings year for the Buildings operations. Although 1989 volume levels exceeded the year-ago period, competitive pressures have limited the ability to achieve pricing improvements. In addition, the unit spent approximately $3 million on several programs in 1989 to support its future growth in the non-residential construction markets.

The Construction operations produced lower profits despite flat sales volumes. While JESCO benefited from reasonably strong markets, ENCORP suffered from slow domestic markets and some residual problems on past projects, the future costs of which were provided for in 1989.

Dominion Bridge, on the other hand, increased its profitability year-over-year primarily due to the improvements resulting from the restructured Quebec operation. The performance of the Ontario operation was a disappointment in that it reported operating losses for the second year in a row. Other Dominion Bridge units were able to increase their profitability over 1988 on stronger sales volumes. While most of the Canadian markets have been relatively stable, they are characterized by competitive pricing pressures.

This segment, particularly the Buildings and Construction units, experienced softening markets in late 1989 in line with the overall industry trend. In the short term, these units are vulnerable to an economic slowdown. However, the Company believes that there will not be an extended downturn and that activity will return to more normal levels in the latter part of 1990.

Backlog for the segment declined slightly to $337 million at December 31, 1989 from $340 million at the end of 1988.

Engineering Services

Sales of $208 million were up substantially (25 percent) from $167 million in 1988, while operating profit doubled from $3 million in 1988 to $6 million in 1989. The improvement relates primarily to Litwin S.A. which benefited from strong order levels throughout the year. Litwin E&C and Litwin S.A. each booked in excess of $100 million in new work during 1989. Continuing the trend established in 1988, the chemical and petrochemical markets were the main drivers for the Litwin companies in 1989. MENCK's results were depressed by the continued low level of activity in its traditional offshore energy exploration markets.

Except for MENCK, the outlook for these businesses is very positive with strong backlogs and excellent opportunities in the offing. MENCK will attempt, in the near term, to expand its participation in the on-land hammer business and lessen its reliance on the offshore market.

Backlog for the segment increased from $189 million at December 31, 1988 to $222 million at the end of 1989 as a result of the high order levels.

Industrial Products

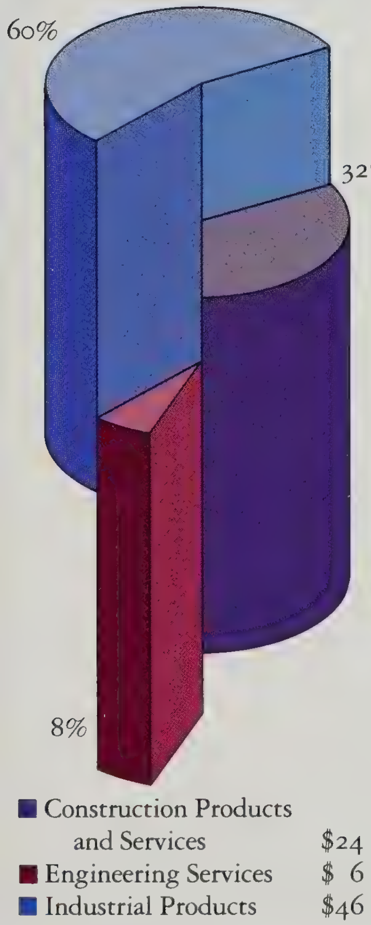
Sales of $407 million increased 12 percent over 1988's level of $362 million, while operating profits increased 10 percent to $46 million from $42 million. As discussed in Note 2 to the Consolidated Financial Statements, Compaction and Aerospace were reconsolidated as of April 1, 1988 and October 1, 1989, respectively. If the results of these units had been included for the full years, sales would have increased 8 percent from $420 million to $455 million while operating profit would have increased by 13 percent from $46 million to $52 million. All units benefited from increased sales volumes and profitability.

The Food Equipment businesses enjoyed record operating results as activity in most of its product lines benefited from strong markets. Compaction experienced the most profitable year in its history as road construction and repair continued at very high levels, particularly in Western Europe. The Aerospace operation also enjoyed a profitable year, benefiting from steady markets.

The Food Equipment and Compaction businesses have recently seen a weakening trend in some of their markets. Although still too early to assess, some slowdown in order activity has been experienced. While it is believed that the slowdown is only temporary, the near term is being approached with cautious optimism.

Backlog increased to $109 million in 1989 from $95 million at the end of 1988.

Operating Profit by Segment



Summary

On a consolidated basis, the Company's ongoing businesses booked new work of $1.4 billion in 1989, equivalent to 1988's level on a comparable basis. These bookings resulted in a backlog of $668 million at the end of 1989, up from $624 million a year ago (again on a comparable basis), while earnings in the backlog increased by 18 percent to $80 million at the end of 1989.

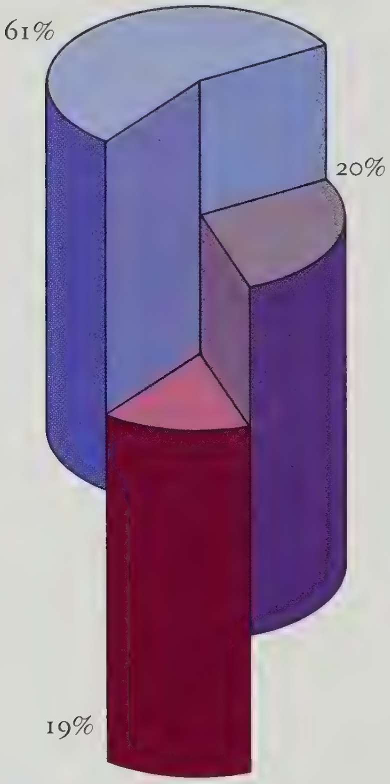
It is difficult to discern whether the recent weakness experienced in some of AMCA's markets reflects the beginnings of a general slowdown in the overall economy or simply some temporary pauses in certain markets. However, in light of the strides made in the last three years to restore the Company's financial health, management believes that the Company is now much better prepared to weather an economic downturn, should one develop.

Results of Operations 1988-1987

Sales of $1.3 billion were 32 percent higher in 1988 than the $974 million in 1987 due partially to the reconsolidation of BOMAG ($182 million) and improved activity across all segments. Results from continuing operations improved from a loss of $35 million in 1987 (which included a pension refund of $10 million offset by a provision for losses on the sale of assets of $35 million) to earnings of $15 million in 1988. After the payment of preferred dividends of $22 million in 1987 and $24 million in 1988, these results translated into losses per share of $1.50 and 11 cents, respectively. Net earnings of $25 million in 1988 improved from a loss of $188 million in 1987. The results for 1987 included a write-off of $150 million relating to goodwill, intangibles and fixed assets of the Industrial Automation segment. These results translated into per share earnings of 1 cent in 1988 and a loss of $5.52 per share in 1987. Average common shares outstanding increased from 38 million in 1987 to 79 million as a result of the two rights offerings.

There was a $26 million improvement in segment earnings which was partially due to the reconsolidation of BOMAG as well as to improved results at all segments except Engineering Services. Earnings of this segment declined from 1987 which included a large profitable project at MENCK that did not carry over to 1988.

Sales by Geographic Spread



United States	$829
Canada	$265
Europe	$263

Liquidity and Capital Resources

The ratio of current assets to current liabilities decreased to 2.2:1 at December 31, 1989 from 2.3:1 at December 31, 1988. "Operating" working capital (excluding cash and short-term investments, net assets to be disposed, short-term borrowings and current installments of long-term debt) decreased by $33 million to $204 million from $237 million at the end of 1988. The major influences on these changes were the various divestiture activities during 1989 and the reconsolidation of the Aerospace Division. Excluding the impact of these changes, operating working capital increased only modestly ($8 million) despite the 9 percent year-to-year increase in sales. The Company now expects that the increase in working capital (and the related cash consumption) will occur in the first half of 1990. It should also be noted that a major portion of the remaining net assets to be disposed ($52 million) have been reclassified from current assets to non-current in 1989 based on management's assessment as to the timing of the realization of these assets.

In 1989, beginning cash balances, cash generated from operations ($72 million) and the $131 million in net cash generated from/invested in divested businesses was used to (a) retire the Series 1 preferred shares and various debt issues ($194 million), (b) pay interest and dividends ($57 million), (c) fund capital expenditures ($17 million) and (d) acquire TCI-Superior ($14 million).

The ratio of equity to long-term debt increased from 2.2:1 at December 31, 1988 to 3.0:1 at the end of 1989 while the ratio of common equity to long-term debt (including straight preferred shares) improved from .89:1 to 1.5:1 at December 31, 1989. Equity decreased as a result of the repurchase of the Series 1 preferred shares ($46 million) which more than offset net earnings retained by the Company (after dividends) of $28 million. Total long-term debt (including current installments) decreased by approximately $140 million primarily as a result of the repayment of the 12.25 percent debentures ($50 million), the DM 100 million bond issue ($50 million) and various revolving credit facilities ($40 million).

At December 31, 1989 the Company had available $429 million of unused credit facilities (including $193 million of revolving bank lines and $100 million under a new subordinated facility). This compares to $150 million at the end of 1988.

The significant increase is due to the following factors:
– The Company entered into an agreement to expand its existing revolving credit agreements to provide an additional $100 million of borrowing capacity. The total credit available under these facilities now amounts to $250 million;
– The Company entered into a separate agreement that makes available up to $100 million of borrowings in the form of subordinated debt. This debt is guaranteed by the Company's majority shareholder, Canadian Pacific Limited.

The Company believes that, together with the factors discussed below, these facilities will be sufficient for its immediate needs. Other factors that should be considered in understanding the Company's financial condition include:
– The Company's plans to retire the Series 3 preferred shares in accordance with the redemption provisions which become available as of September 1, 1990.
– $71 million in net assets to be disposed which will be converted into cash over the next 2-3 years;
– Tax operating loss carryforwards of $400 million in the U.S. and $35 million in Canada which will protect taxable earnings up to those amounts from payment of taxes. Although the Company will provide taxes for financial reporting purposes on a portion of those earnings, the provisions will not result in cash payments (see Note 3 to the Consolidated Financial Statements).

In light of the Company's improved operating results, its strong cash position, the gain from the sale of the Industrial Automation segment, and to maintain its eligibility for investment under certain Canadian statutes, the Company paid a US 15 cents per share cash dividend on its common shares. Cash dividends were paid as scheduled on the Company's preferred shares.

The Company plans to invest approximately $30 million in new plant and equipment in 1990 or about 160 percent of depreciation. As in prior years, CAD/CAM and computer-controlled production equipment will continue to make up a major portion of the investments. There were no material commitments for capital expenditures as of December 31, 1989.

Consolidated Statements of Operations

Years Ended December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

	1989	1988	1987
		(Restated – Notes 1 and 2)	
Revenues			
Sales	$1,402,136	$1,288,648	$ 974,435
Other (Note 9)	–	–	10,249
	1,402,136	1,288,648	984,684
Costs and Expenses			
Cost of sales	1,152,691	1,053,940	812,666
Selling, general and administrative expenses	171,358	154,598	116,458
Depreciation and amortization	17,598	18,597	14,548
Interest – net (Note 7)	10,839	28,466	32,937
Foreign currency transaction loss	4,025	8,109	5,228
Provision for loss on sale of assets (Note 2)	–	–	35,000
	1,356,511	1,263,710	1,016,837
Income (Loss) From Continuing Operations Before Income Taxes	45,625	24,938	(32,153)
Income Tax Provision (Note 3)	10,205	9,442	2,737
Income (Loss) From Continuing Operations	35,420	15,496	(34,890)
Discontinued Operations (Note 2)			
Earnings (loss) from discontinued operations	12,799	9,930	(153,004)
Gain on disposal of discontinued operations	25,000	–	–
Income (Loss) From Discontinued Operations	37,799	9,930	(153,004)
Net Income (Loss)	$ 73,219	$ 25,426	$ (187,894)
Net income (loss)	$ 73,219	$ 25,426	$ (187,894)
Preferred share dividends	(24,530)	(24,242)	(22,316)
Earnings (loss) applicable to common shares	$ 48,689	$ 1,184	$ (210,210)
Earnings (Loss) per Common Share (Note 1)			
Continuing operations	$ .08	$ (.11)	$ (1.50)
Discontinued operations	.28	.12	(4.02)
Earnings (Loss)	$ .36	$ .01	$ (5.52)

Consolidated Statements of Retained Earnings (Deficit)

Years Ended December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

	1989	1988	1987
Balance at Beginning of Year	$(156,451)	$(139,400)	$ 79,508
Net income (loss)	73,219	25,426	(187,894)
	(83,232)	(113,974)	(108,386)
Dividends			
Common shares			
Common stock (Note 8)	–	(12,393)	–
Cash – $.15 per share (1987 – $.25 per share)	(20,331)	–	(8,698)
8.84% Preferred shares – Series 1	(3,899)	(4,175)	(3,898)
9.5% Preferred shares – Series 2	(16,415)	(15,965)	(14,648)
9.25% Preferred shares – Series 3	(4,216)	(4,102)	(3,770)
Expenses related to the issue of share capital (Note 8)	–	(5,842)	–
Balance at End of Year	$(128,093)	$(156,451)	$(139,400)

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

	1989	1988	1987
		(Restated – Notes 1 and 2)	
Cash Provided From (Used By) Operating Activities			
Continuing operations			
Income from continuing operations before net interest expense and provision for loss on sale of assets	$ 46,259	$ 43,962	$ 33,047
Add (deduct) items not affecting cash			
Depreciation	15,267	15,766	12,442
Amortization	2,331	2,831	2,106
Deferred income taxes	542	(2,255)	(5,542)
Foreign currency transaction loss	3,877	7,546	6,022
	68,276	67,850	48,075
Net decrease (increase) in non-cash working capital balances related to operations (Note 12)	(8,443)	22,267	(19,752)
Other	(1,643)	(2,221)	(3,399)
	58,190	87,896	24,924
Cash provided from (used by) discontinued operations	13,373	(8,417)	10,261
	71,563	79,479	35,185
Cash Provided From (Used By) Investing Activities			
Additions to property, plant and equipment	(16,594)	(12,175)	(19,689)
Acquisitions of businesses	(13,927)	–	(35,000)
Net proceeds from disposal of assets	163,725	143,165	273,300
Other	301	(49)	(1,216)
	133,505	130,941	217,395
Cash Provided From (Used By) Financing Activities			
Additional borrowings	10,336	42,915	–
Repayments of borrowings	(148,318)	(218,105)	(282,565)
Net decrease in financed receivables	–	2,239	63,469
Cash advanced to businesses to be divested	(33,105)	(33,923)	(10,069)
Issue of share capital, net of expenses	–	261,084	165
Repurchase of preferred shares	(46,287)	(1,291)	(5,157)
Dividends paid in cash	(44,861)	(24,242)	(31,014)
Interest paid – net	(11,765)	(31,389)	(32,937)
Other	550	(2,482)	221
	(273,450)	(5,194)	(297,887)
Net Increase (Decrease) in Cash and Short-Term Investments	(68,382)	205,226	(45,307)
Cash and Short-Term Investments at Beginning of Year	211,464	6,238	51,545
Cash and Short-Term Investments at End of Year	$143,082	$211,464	$ 6,238

See accompanying notes.

Consolidated Statements of Financial Position

December 31, 1989 and 1988
(In thousands of U.S. dollars)

	1989	1988
Assets		
Current assets		
Cash and short-term investments	$ 143,082	$ 211,464
Accounts and notes receivable, less allowance for doubtful accounts – $7,709 (1988 – $9,056) (Note 1)	235,028	297,708
Inventories (Note 4)	252,493	225,525
Net assets to be disposed (Note 2)	19,648	124,852
Other current assets	7,301	10,561
Total current assets	657,552	870,110
Fixed assets (Note 5)	116,650	129,746
Deferred income taxes (Note 3)	79,802	82,799
Goodwill (Note 1)	74,935	72,253
Other assets (Notes 2 and 12)	90,103	31,976
	$1,019,042	$1,186,884
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings (Note 6)	$ 3,487	$ 12,768
Accounts payable and accrued liabilities	196,839	228,706
Customer advances	92,405	64,773
Income taxes	1,738	3,350
Current installments on long-term debt (Note 6)	5,224	66,797
Total current liabilities	299,693	376,394
Long-term debt (Note 6)	173,477	251,123
Deferred liabilities (Note 9)	21,435	17,766
	494,605	645,283
Shareholders' equity (Note 8)		
Preferred shares – Series 1		
Issued – 107,185 shares (1988 – 2,266,500)	2,153	45,614
Convertible preferred shares – Series 2		
Issued – 8,165,000 shares	155,278	155,278
Preferred shares – Series 3		
Issued – 2,153,800 shares	39,694	39,694
Common shares		
Issued – 135,481,746 shares	479,249	479,249
Deficit	(128,093)	(156,451)
	548,281	563,384
Equity adjustment from foreign currency translation (Note 1)	(23,844)	(21,783)
Total shareholders' equity	524,437	541,601
	$1,019,042	$1,186,884

See accompanying notes.

On behalf of the Board
William R. Holland, Director
C. Douglas Reekie, Director

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

1. Summary of Significant Accounting Policies

General.

The Company's common shares are 55.4% owned by Canadian Pacific Limited.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These accounting principles are in conformity with accounting principles generally accepted in the United States except as indicated in Note 12.

Consolidation.

All subsidiary companies are consolidated and all significant intercompany accounts and transactions have been eliminated in consolidation.

Consolidated Statements of Cash Flows.

The Consolidated Statements of Cash Flows for 1988 and 1987 have been restated to classify the change in short-term borrowings as a component of "Cash provided from (used by) financing activities." Prior to this change, short-term borrowings were reflected as a component of net cash. Cash and short-term investments include highly liquid investments with a maturity of three months or less.

Construction Contracts.

For financial statement purposes, income on construction contracts is recognized on the percentage-of-completion basis. Provisions for anticipated losses on uncompleted contracts are made in the period in which such losses are first determinable. Included in accounts receivable are unbilled receivables related to these contracts of $46,406 (1988 – $66,747).

Inventories.

Work-in-process related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage-of-completion of individual contracts. Other inventories are stated at the lower of cost (average or first-in, first-out) or net realizable value.

Fixed Assets.

Property, plant and equipment are recorded at cost. Major renewals and betterments are capitalized; maintenance and repairs are expensed as incurred. Cost of property sold or otherwise disposed and related accumulated depreciation are removed from the accounts at the time of disposal and any resulting gain or loss is included in income. Depreciation of plant and equipment is determined on a straight-line basis over the estimated useful lives of the assets.

Goodwill.

Goodwill is amortized using the straight-line method over a period not exceeding 40 years. During 1987, the Company wrote down the value of goodwill and other intangibles by $100,000. See Note 2 for further details. Accumulated amortization was $19,666 and $18,328 at December 31, 1989 and 1988, respectively.

Foreign Currency Translation.

All assets and liabilities are translated into U.S. dollars using current exchange rates and income statement items are translated using weighted average exchange rates for the year. The translation adjustment is included as a component of shareholders' equity whereas gains and losses on foreign currency transactions are included in income except for those related to unhedged long-term monetary assets or liabilities which are deferred and amortized to income over the life of the monetary item.

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

1. Summary of Significant Accounting Policies (Continued)

The following table shows the changes in the equity adjustment from foreign currency translation for the years ended December 31, 1989, 1988 and 1987:

	1989	1988	1987
Balance at beginning of year	$21,783	$19,159	$36,552
Net effect of currency translation adjustments and hedging transactions	2,061	2,624	(7,393)
Transfer to income associated with disposals of businesses	–	–	(10,000)
Balance at end of year	$23,844	$21,783	$19,159

Earnings Per Common Share.

Earnings per common share are calculated by deducting dividends applicable to preferred shares from net income (loss) and dividing the result by the weighted average number of shares outstanding during the year (1989–135,481,746 shares; 1988–78,928,582 shares; 1987–38,067,125 shares). The assumed exercise of outstanding stock options and the conversion of convertible preferred shares would not have a dilutive effect on reported earnings per common share.

Change in Accounting Policy.

In 1989, the Company adopted new Canadian accounting standards for the presentation of extraordinary and unusual items. Under these new standards, which the Company has applied on a retroactive basis, the tax benefits of utilizing net operating loss carryforwards are not shown as an extraordinary item. Accordingly, the previously reported extraordinary credit in 1988 of $5,277 has now been reflected as a reduction of income tax expense in the accompanying Consolidated Statements of Operations. In addition, in 1987 a write-down of the Company's investment in the Industrial Automation segment of $150,000 and a provision for loss on the proposed sale of BOMAG of $35,000, which were previously reported separately as unusual items, are now included in the results of discontinued and continuing operations, respectively (see also Note 2). These changes do not affect net income (loss) as previously reported.

Reclassifications.

Certain prior year amounts have been reclassified to conform with current year presentations.

2. Divestitures and Other Activities

Divestitures.

In July 1989, the Company completed an initial public offering of all shares of its wholly-owned subsidiary, Giddings & Lewis, Inc. (formerly the Industrial Automation segment). The transaction generated approximately $130,000 in cash, after commissions and expenses, and the Company recorded a gain in the third quarter of $25,000. No income tax has been recorded on this gain or on earnings from discontinued operations due to the utilization of net operating loss carryforwards.

The results of operations of this segment have been separately classified as "Earnings (loss) from discontinued operations" in the Consolidated Statements of Operations and, accordingly, have resulted in the reclassification of sales of $131,463, $167,750 and $125,040 for the years ended December 31, 1989, 1988, and 1987, respectively. This restatement does not affect net income as previously reported. With respect to the Consolidated Statements of Financial Position, the sale of this segment resulted in a decrease in working capital and fixed assets of approximately $70,000 and $35,000, respectively. The operating cash flows from this segment have been separately classified in the Consolidated Statements of Cash Flows.

During 1987, the Company reevaluated its investment in its Industrial Automation segment. As a result, the Company wrote down its investment in the segment to a more realistic valuation relative to expected future operating results. The write-down, which has been reflected in "Earnings (loss) from discontinued operations" in the accompanying Consolidated Statements of Operations, totaled $150,000 and included the write-off of goodwill and intangibles of $100,000 and a reduction of fixed assets of approximately $50,000.

December 31, 1989,
1988 and 1987
(In thousands of U.S. dollars)

2. Divestitures and Other Activities (Continued)

Other Activities.

In 1986, the Company announced the proposed sale of BOMAG, a leading producer of compaction equipment. In 1987, the Company determined that it was not possible to sell BOMAG at values originally contemplated and, as a result, a $35,000 provision for loss was recorded. This provision has been reflected as "Provision for loss on sale of assets" in the accompanying Consolidated Statements of Operations.

In 1988, the Company rescinded its decision to sell BOMAG and reconsolidated its net assets effective April 1, 1988. The reconsolidation of BOMAG increased sales and net earnings in 1988 by $182,436 and $8,926, respectively. Results of operations for prior periods have not been restated because the Company believes that they would not be indicative of the Company's future performance and would not materially change the Company's results of operations for any of the periods presented. A restatement would increase sales in 1988 by $53,017, representing BOMAG's first quarter sales, and $230,318 for the year ended December 31, 1987.

In late 1988, the Company announced its decision to divest the Aerospace Division. In 1989, the Company rescinded its decision to sell this division and has reconsolidated its net assets beginning October 1, 1989 which increased sales and income from continuing operations by $17,558 and $2,759, respectively, and reduced net assets to be disposed by approximately $37,000.

The accompanying Consolidated Statements of Financial Position include $71,293 and $124,852 of remaining assets to be disposed at December 31, 1989 and 1988, respectively. Based on management's current assessment as to the timing of the realization of these assets, $51,645 has been reflected in "Other assets" at December 31, 1989.

3. Income Taxes

The provision (benefit) for income taxes on income (loss) from continuing operations is comprised of the following:

	1989	1988	1987
Current			
Canada	$ (8)	$ (67)	$ 698
United States	3,240	2,200	1,800
Other countries	6,431	9,564	5,781
	9,663	11,697	8,279
Deferred – Other countries	542	(2,255)	(5,542)
	$10,205	$ 9,442	$ 2,737

The related income (loss) from continuing operations before income taxes is as follows:

	1989	1988	1987
Canada	$5,860	$(10,847)	$ (269)
United States	16,118	13,473	(57,077)
Other countries	23,647	22,312	25,193
	$45,625	$24,938	$(32,153)

The deferred income tax provision (benefit) from continuing operations represents the tax effect of transactions reported in different periods for financial and income tax reporting purposes, and resulted from the following items:

	1989	1988	1987
Construction contracts	$ 1,203	$ 74	$ (4,258)
Other	(661)	(2,329)	(1,284)
	$ 542	$ (2,255)	$ (5,542)

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

3. Income Taxes (Continued)

The difference between the Company's effective income tax rate and the statutory rate on income (loss) from continuing operations is reconciled below.

	1989	1988	1987
Income tax expense (benefit) at statutory rate	$15,513	$ 8,479	$(12,861)
State, provincial and other income taxes	2,478	990	1,998
Foreign income taxed at more (less) than statutory rate	(110)	32	(9,883)
Canadian and U.S. operating losses without tax benefit	–	2,720	22,983
Capital losses without tax benefit	–	929	–
Difference in book-tax asset basis	1,782	–	–
Tax benefit of utilizing net operating loss carryforwards	(10,337)	(4,621)	–
Other	879	913	500
	$10,205	$ 9,442	$ 2,737

At December 31, 1989, for income tax purposes, the Company has U.S. net operating loss carryforwards of approximately $400,000 which expire between 1998 and 2004 and Canadian net operating loss carryforwards of approximately $35,000 which expire between 1991 and 1995.

At December 31, 1989, for financial reporting purposes, the Company has U.S. and Canadian net operating losses of approximately $90,000. The tax benefits of these losses have not been reflected in the accounts as there are no deferred income taxes available.

The net debit related to income taxes included in the Consolidated Statements of Financial Position includes tax benefits of losses related to discontinued operations prior to 1987 and differences arising from purchase accounting in the basis of certain assets and liabilities for financial reporting and tax purposes. It also includes approximately $15,000 at December 31, 1989 and 1988 primarily representing German taxes refundable to the Company when German earnings are repatriated.

Income taxes paid totaled $6,324, $4,781, and $10,930 for 1989, 1988 and 1987, respectively.

4. Inventories

Inventories are summarized as follows:

	1989	1988
Contract work-in-process	$ 63,748	$ 46,077
Steel and other supplies	47,323	52,200
Work-in-process	62,142	53,289
Finished products	79,280	73,959
	$252,493	$225,525

5. Fixed Assets

Fixed assets are summarized as follows:

	Cost	Accumulated depreciation and amortization	Net
December 31, 1989			
Land	$ 6,728	$ –	$ 6,728
Plant	77,631	32,708	44,923
Machinery and equipment	154,296	93,572	60,724
Construction in progress	4,275	–	4,275
	$242,930	$126,280	$116,650
December 31, 1988			
Land	$ 4,663	$ –	$ 4,663
Plant	100,451	51,369	49,082
Machinery and equipment	199,021	128,856	70,165
Construction in progress	5,836	–	5,836
	$309,971	$180,225	$129,746

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

6. Debt

Short-Term

Short-term borrowings are transacted either through commercial banks using overdrafts, bankers' acceptances or promissory notes or through the issuance of commercial paper. Information on the Company's short-term borrowings for the three years ended December 31, 1989, 1988 and 1987 is as follows:

Category of aggregate short-term borrowings	Balance at end of year	Weighted average interest rate at end of year	Maximum amount outstanding during the year	Average amount outstanding during the year	Weighted average interest rate during the year
1989					
Notes payable to banks	$ 3,487	11.4%*	$37,808	$10,174	12.8%*
1988					
Notes payable to banks	$12,768	8.6%	$73,609	$47,227	8.6%
Commercial paper	$ –	–%	$49,075	$22,910	8.6%
1987					
Notes payable to banks	$65,668	8.6%	$85,490	$46,025	8.4%
Commercial paper	$28,350	8.2%	$90,042	$78,767	7.9%

*Short-term borrowings primarily denominated in Canadian dollars and Pound Sterling.

At December 31, 1989, the Company had available approximately $136 million of unused short-term borrowing facilities.

Long-Term

The Company's long-term debt at December 31, 1989 and 1988 is summarized as follows:

	1989	1988
Deutsche Mark Bonds due 1992 (DM 150 million)–7.375%	$ 88,587*	$ 84,335
Revolving credit bank notes	57,066	70,690
Deutsche Mark Bonds due 1991 (DM 100 million)–8.25%	–	56,380
Debentures due 1999–12.25%	–	50,000
Other notes payable due in installments through 2004 at interest rates varying from 5.6% to 11.5%	33,048	56,515
	178,701	317,920
Less installments due in one year	5,224	66,797
	$173,477	$251,123

*Increase from 1988 due to exchange rate changes.

The 8.25% Deutsche Mark Bonds and the 12.25% Debentures were retired by the Company during 1989.

The Company and its North America subsidiaries have a revolving credit agreement with a group of banks. This agreement gives the Company and its subsidiaries the ability to borrow up to $250,000 through February 1992 at interest rates of the U.S. or Canadian prime rates plus 1/4% or LIBOR plus 3/4%. During 1989, the Company's borrowings were primarily denominated in Canadian dollars. The weighted average interest rate on the borrowings under this agreement was 11.8% and 10.7% during 1989 and 1988, respectively. The Company pays an annual commitment fee of 1/4% to 3/8% on the unused amount of the facility.

Additionally, a new agreement was signed in 1989 for up to $100,000 of subordinated debt at interest rates of the U.S. prime rate or LIBOR plus 3/8%. This agreement may be utilized at any time through April 1990. Borrowings then outstanding are payable in April 1992. No borrowings were made under this agreement in 1989. This new agreement is guaranteed by Canadian Pacific Limited for an annual fee of 1.25%. The Company pays an annual commitment fee of 3/16% on the unused amount of the facility.

December 31, 1989,
1988 and 1987
(In thousands of U.S. dollars)

6. Debt (Continued)

Various loan agreements contain covenants with respect to working capital, net worth, indebtedness, and other items. The Company has complied with all provisions of these agreements.

Future principal payments on long-term debt are as follows:

1990	$ 5,224
1991	20,049
1992	147,706
1993	1,450
1994	772
Thereafter	3,500
	$178,701

7. Interest Expense—Net

Net interest expense is composed of the following:

	1989	1988	1987
Interest on long-term debt	$25,824	$30,709	$42,831
Other interest expense	4,026	6,052	10,089
Interest income	(19,011)	(8,295)	(19,983)
	$10,839	$28,466	$32,937

8. Capital Stock

The Company is incorporated under the Canada Business Corporations Act and is authorized to issue an unlimited number of common and preferred shares of no par value.

In May and December 1988, 64,356,421 and 33,047,892 common shares were issued for net cash consideration of $152,770 and $108,314, respectively. Expenses of $5,842 were charged directly to deficit. Proceeds from these issues have been used to retire debt.

The Company has outstanding 107,185 shares of 8.84% Cumulative Redeemable Retractable Preferred Shares Series 1 at December 31, 1989 (2,266,500 shares at December 31, 1988). Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.21 per share. A holder of such shares had the right to require the Company to redeem his shares on December 1, 1989 at a price equal to Cdn. $25.00 per share. Accordingly, during 1989, the Company honored its retraction obligation and repurchased 2,159,315 shares at a total cost of $46,287. The remaining shares are currently redeemable at the option of the Company at Cdn. $25.00 per share. During 1988 and 1987, 60,700 and 109,500 shares were repurchased at a total cost of $1,196 and $1,990, respectively.

The Company has outstanding 8,165,000 shares of 9.5% Cumulative Redeemable Convertible Preferred Shares Series 2. Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.375 per share. Each share is convertible at any time prior to November 16, 1994 into approximately 1.6 common shares. Also, subject to market conditions, these shares are currently redeemable at the option of the Company at Cdn. $26.00 per share. The redemption price decreases in equal annual amounts from Cdn. $25.80 to Cdn. $25.00 between November 16, 1990 and November 16, 1994, and remains at Cdn. $25.00 thereafter. The Company is obligated to repurchase a maximum of 163,300 shares annually beginning in 1990, if such shares are available at a price not exceeding Cdn. $25.00 per share.

The Company has outstanding 2,153,800 shares of 9.25% Cumulative Redeemable Retractable Preferred Shares Series 3 at December 31, 1989. Each share entitles its holder to receive a fixed cumulative preferential cash dividend at an annual rate of Cdn. $2.3125 per share. A holder of such shares may require the Company to redeem his shares on September 1 in each of the years 1990 to 1995, inclusive, at a price equal to Cdn. $25.00 per share. On or after September 1, 1990, the shares will be redeemable at the option of the Company at a price equal to Cdn. $25.00. The Company repurchased 5,000 and 174,000 shares at a total cost of $95 and $3,167 during 1988 and 1987, respectively.

December 31, 1989,
1988 and 1987
(In thousands of U.S. dollars)

8. Capital Stock (Continued)

During 1988, the Company paid a common stock dividend equal to $.125 per common share resulting in the issuance of 3,290,178 common shares.

The Company has a stock option plan under which options for a term not exceeding ten years may be granted to key employees to purchase common shares of the Company at a price not less than 90% of their fair market value at the date of grant. Common shares reserved for exercise of these options may not at any time exceed 5% of the number of common shares then outstanding. Transactions involving the plan are summarized below:

	Shares		Option Price Per Share
	Reserved	Granted	(Canadian Currency)
Outstanding December 31, 1988	171,300	2,808,000	$4.75-$20.25
Reserved	3,794,700	–	–
Granted	(1,260,000)	1,260,000	$4.50
Canceled	294,500	(294,500)	$4.50-$16.25
Outstanding December 31, 1989	3,000,500	3,773,500	$4.50-$20.25

The options outstanding at December 31, 1989, of which officers of the Company held 2,610,000, are exercisable through various dates up to 1999. In 1987, 18,000 shares were issued for cash aggregating Cdn. $216.

9. Pension Plans

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Plans covering eligible salaried employees call for benefits to be paid at retirement based primarily upon years of service and their compensation rates near retirement. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. Contributions to the plans reflect benefits attributed to employees' services to date and also for benefits expected to be earned in the future. Assets of the plans consist primarily of cash and cash equivalents, common and preferred stocks, investment-grade corporate bonds and guaranteed investment contracts.

The following table shows the components of pension expense for the Company's continuing operations during 1989, 1988 and 1987:

	1989	1988	1987
Service cost	$4,556	$3,635	$3,915
Interest cost on the projected benefit obligation	4,604	4,032	4,682
Return on assets held in the plans	(4,868)	(4,630)	(6,871)
Net amortization and deferral	(120)	(207)	(1,133)
Pension expense	$4,172	$2,830	$ 593

The increase in pension expense in 1988 reflects the effect of the reversion of surplus plan assets to the Company in late 1987 in connection with the settlement of certain benefit obligations discussed below.

The following table sets forth the plans' funded status at December 31, 1989 and 1988. Amounts at December 31, 1989 exclude plan assets and projected benefit obligations relating to the Industrial Automation segment which has been sold (see also Note 2).

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

9. Pension Plans (Continued)

	1989	1988
Vested benefits	$52,474	$67,060
Nonvested benefits	3,971	5,393
Accumulated benefit obligations	56,445	72,453
Effect of anticipated future compensation levels and other events	12,272	23,682
Projected benefit obligations	68,717	96,135
Fair value of assets held in the plans	102,767	136,079
Excess of assets held in the plans over projected benefit obligations	$34,050	$39,944

The excess consists of the following:

	1989	1988
Unamortized past service cost	$ (248)	$ (1,365)
Net unrecognized loss from past experience different than assumed	(2,958)	(4,321)
Unrecognized increase in Canadian pension plan surplus	4,802	1,636
Unamortized net asset at transition	35,488	45,129
Accrued pension cost on the consolidated statements of financial position	(3,034)	(1,135)
	$34,050	$39,944

The weighted average discount rate used to measure the projected benefit obligation is 8%, the rate of increase in future compensation levels is 6%, and the expected long-term rate of return on assets is 8%. The Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

In addition to the above plans, the Company also provides benefits under certain German pension plans which, in accordance with applicable laws, have not been funded. The costs not being funded ($8,632 and $8,706 at December 31, 1989 and 1988, respectively) are included in "Deferred liabilities" in the accompanying Consolidated Statements of Financial Position.

During 1987, the Company settled the accumulated benefit obligations relating to participants of certain U.S. pension plans through the purchase of nonparticipating annuity contracts. A gain on settlement of $10,249 was recognized and is included in "Other revenues" in the accompanying Consolidated Statements of Operations.

10. Business Segments

In order to facilitate a better understanding of the operations of the Company, the segments have been realigned to more accurately reflect the general markets they serve. The Company operates in the following industry segments which take into account such realignment:

Construction Products and Services

Pre-engineered building systems; design, engineering, construction of industrial and commercial buildings; steel fabrication and erection; general construction and engineering services.

Engineering Services

Turnkey petroleum refineries, petrochemical and industrial plants; pile driving equipment.

Industrial Products

Beverage, dairy, food, pharmaceutical and cosmetics processing and packaging machinery; sanitary rotary positive displacement pumps; soil compaction and sanitary landfill equipment; aerospace components; metal forming machinery.

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

10. Business Segments (Continued)

Year ended December 31, 1989

	Assets	Sales Gross	Sales Inter-segment	Sales Net	Operating profit	Net capital employed (1)	Capital expenditures (1)	Depreciation and amortization (1)
Industry Segment								
Construction Products and Services	$ 257,321	$ 742,384	$ 706	$ 741,678	$24,246	$ 92,634	$ 6,262	$ 5,767
Engineering Services	50,120	208,177	–	208,177	6,318	975	1,683	625
Industrial Products (2)	318,926	407,136	–	407,136	46,129	215,028	6,175	7,958
	626,367	1,357,697	706	1,356,991	76,693	308,637	14,120	14,350
Divested businesses	–	45,145	–	45,145	1,864	–	204	299
	626,367	$1,402,842	$ 706	$1,402,136	$78,557	$308,637	$14,324	$14,649
Corporate (including assets to be disposed)	392,675							
Total assets	$1,019,042							
Geographic Segment								
United States (2)	$ 309,132	$ 831,645	$ 2,754	$ 828,891	$45,967			
Canada	161,317	272,859	7,435	265,424	5,386			
Europe	155,918	301,083	38,407	262,676	25,340			
Divested businesses	–	45,145	–	45,145	1,864			
	$ 626,367	$1,450,732	$48,596	$1,402,136	$78,557			

Reconciliation of Segment Operating Profit to Net Income

Segment operating profit	$78,557
Corporate and other expenses	(18,068)
Interest – net	(10,839)
Foreign currency transaction loss	(4,025)
Income from continuing operations before income taxes	45,625
Income tax provision	10,205
Income from continuing operations	35,420
Income from discontinued operations	37,799
Net income	$73,219

(1) Net capital employed, capital expenditures and depreciation and amortization exclude $215,800, $2,270 and $2,949, respectively, of corporate amounts and, in the case of net capital employed, amounts pertaining to divested units.
(2) Includes amounts relating to the Aerospace Division effective October 1, 1989. (See Note 2.)

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

10. Business Segments (Continued)

Year ended December 31, 1988

	Assets	Sales: Gross	Sales: Inter-segment	Sales: Net	Operating profit	Net capital employed (1)	Capital expenditures (1)	Depreciation and amortization (1)
Industry Segment								
Construction Products and Services	$ 220,482	$ 635,680	$ 411	$ 635,269	$28,460	$ 81,497	$ 4,063	$ 5,427
Engineering Services	36,825	167,050	–	167,050	2,764	4,173	402	577
Industrial Products (2)	282,056	362,163	475	361,688	41,927	205,933	7,323	8,394
	539,363	1,164,893	886	1,164,007	73,151	291,603	11,788	14,398
Divested businesses	–	124,641	–	124,641	5,187	–	363	449
	539,363	$1,289,534	$ 886	$1,288,648	$78,338	$291,603	$12,151	$14,847
Corporate (including assets to be disposed)	647,521							
Total assets	$1,186,884							
Geographic Segment								
United States	$ 293,460	$ 819,201	$ 4,304	$ 814,897	$52,738			
Canada	114,769	189,512	8,809	180,703	1,622			
Europe (2)	131,134	194,715	26,308	168,407	18,791			
Divested businesses	–	124,641	–	124,641	5,187			
	$ 539,363	$1,328,069	$39,421	$1,288,648	$78,338			

Reconciliation of Segment Operating Profit to Net Income

Segment operating profit	$78,338
Corporate and other expenses	(16,825)
Interest – net	(28,466)
Foreign currency transaction loss	(8,109)
Income from continuing operations before income taxes	24,938
Income tax provision	9,442
Income from continuing operations	15,496
Income from discontinued operations	9,930
Net income	$25,426

(1) Net capital employed, capital expenditures and depreciation and amortization exclude $249,998, $24 and $3,750, respectively, of corporate amounts and, in the case of net capital employed, amounts pertaining to divested units.

(2) Includes amounts relating to BOMAG effective April 1, 1988. Results of operations for prior periods have not been restated because the Company believes such restatement would not materially change its operating results. (See Note 2.)

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

10. Business Segments (Continued)

Year ended December 31, 1987

	Assets	Sales Gross	Sales Inter-segment	Sales Net	Operating profit	Net capital employed (1)	Capital expenditures (1)	Depreciation and amortization (1)
Industry Segment								
Construction Products and Services	$186,154	$552,896	$ 742	$552,154	$ 26,760	$ 83,428	$ 4,897	$ 5,154
Engineering Services	34,168	129,768	–	129,768	5,410	3,448	864	584
Industrial Products (2)	112,862	144,454	–	144,454	14,670	84,379	9,249	2,981
	333,184	827,118	742	826,376	46,840	171,255	15,010	8,719
Divested businesses	–	148,737	678	148,059	5,126	–	4,334	2,969
	333,184	$975,855	$1,420	$974,435	$ 51,966	$171,255	$19,344	$11,688
Corporate (including assets to be disposed)	622,431							
Total assets	$955,615							
Geographic Segment								
United States	$239,689	$620,765	$3,652	$617,113	$ 34,242			
Canada	71,410	147,733	–	147,733	5,990			
Europe (2)	22,085	61,530	–	61,530	1,725			
Divested businesses	–	148,737	678	148,059	10,009			
	$333,184	$978,765	$4,330	$974,435	$ 51,966			

Reconciliation of Segment Operating Profit to Net Loss

Segment operating profit	$51,966
Corporate and other expenses	(21,203)
Interest – net	(32,937)
Foreign currency transaction loss	(5,228)
Other revenues	10,249
Provision for loss on sale of assets	(35,000)
Loss from continuing operations before income taxes	(32,153)
Income tax provision	2,737
Loss from continuing operations	(34,890)
Loss from discontinued operations	(153,004)
Net loss	$(187,894)

(1) Net capital employed, capital expenditures and depreciation and amortization exclude $112,014, $345 and $2,860, respectively, of corporate amounts and, in the case of net capital employed, amounts pertaining to divested units.

(2) Does not include any amounts relating to BOMAG as results of operations for periods prior to April 1, 1988 have not been restated. The Company believes such restatement would not materially change its operating results. (See Note 2.)

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

11. Contingent Liabilities

A number of claims and lawsuits seeking unspecified damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position.

At December 31, 1989, the Company has sold approximately $40,000 of receivables under recourse agreements. Reserves have been provided for any anticipated losses under these agreements.

12. Differences Between Canadian and United States Accounting Principles

Generally accepted accounting principles (GAAP) in Canada permit expenses related to the issue of capital stock, net of income taxes, to be deducted from retained earnings (deficit) while United States GAAP requires such expenses to be deducted from the proceeds of stock issuances credited to capital stock. This reclassification would reduce capital stock and the deficit by $12,927 at December 31, 1989 and 1988.

United States Securities and Exchange Commission regulations require that the 8.84% redeemable preferred shares – Series 1 and 9.25% redeemable preferred shares – Series 3 be classified outside the shareholders' equity section.

GAAP in Canada requires that unrealized gains and losses related to the Deutsche Mark Bonds be deferred and amortized to income over the remaining life of the bonds. United States GAAP requires that such transaction gains and losses be recognized in income currently. The unamortized foreign exchange loss included in "Other assets" in the accompanying Consolidated Statements of Financial Position amounts to $4,841 and $19,454 at December 31, 1989 and 1988, respectively.

Under accounting standards in the U.S., effective in 1992, the tax benefit of utilizing net operating loss carryforwards would generally no longer be treated as an extraordinary item. This is the current accounting treatment required under Canadian GAAP (see Note 1). Assuming such treatment of extraordinary items under Canadian and United States GAAP, the amounts that would be shown under United States GAAP and the related per share amounts, reflecting the impact of recording the unrealized gains (losses) relating to the Deutsche Mark Bonds, are as follows:

	1989	1988	1987
Income (loss) from continuing operations	$50,033	$39,069	$ (56,471)
Net income (loss)	$87,832	$48,999	$(209,475)
Per common share:			
Continuing operations	$ .19	$ .19	$ (2.07)
Earnings (loss)	$ .47	$ .31	$ (6.09)

These proposed U.S. accounting standards also will limit the recognition of deferred income tax assets and, accordingly, the Company would have to reduce shareholders' equity by approximately $85,000. Generally accepted accounting principles in Canada currently do not require that these deferred income tax assets be adjusted.

December 31, 1989, 1988 and 1987
(In thousands of U.S. dollars)

12. Differences Between Canadian and United States Accounting Principles (Continued)

United States GAAP requires disclosure of changes during the year in non-cash working capital balances pertaining to operating activities. The following table reflects such changes for the years ended December 31, 1989, 1988 and 1987:

	1989	1988	1987
Decrease (increase) in current assets			
Accounts and notes receivable	$(23,443)	$(12,127)	$(28,520)
Inventories	(13,636)	(25,706)	(5,117)
Other current assets	6,962	(787)	1,064
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	(6,657)	53,150	20,788
Customer advances	28,331	7,737	(7,967)
	$ (8,443)	$ 22,267	$(19,752)

Auditors' Report

To the Shareholders of AMCA International Limited

We have examined the consolidated statements of financial position of AMCA International Limited at December 31, 1989 and 1988 and the consolidated statements of operations, retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1989 in accordance with accounting principles generally accepted in Canada applied, after giving retroactive effect to the change in the method of accounting for extraordinary and unusual items as described in Note 1 to the consolidated financial statements, on a consistent basis during the period.

Ernst & Young
Chartered Accountants

Montreal, Canada
January 26, 1990

Consolidated Statements of Operations by Quarters

	1989				1988			
	December	September	June	March	December	September	June	March
Revenues	$371,966	$362,655	$357,168	$310,347	$372,505	$354,900	$326,130	$235,113
Costs and Expenses								
Cost of sales	308,146	299,213	288,655	256,677	303,259	293,890	259,574	197,217
Selling, general and administrative expenses	45,793	42,767	44,734	38,064	44,980	38,200	40,244	31,174
Depreciation and amortization	3,889	4,656	4,488	4,565	5,234	4,711	4,915	3,737
Interest – net	1,537	2,384	3,933	2,985	5,139	6,038	8,162	9,127
Foreign currency transaction loss	581	793	669	1,982	2,209	1,837	1,910	2,153
	359,946	349,813	342,479	304,273	360,821	344,676	314,805	243,408
Income (Loss) From Continuing Operations Before Income Taxes	12,020	12,842	14,689	6,074	11,684	10,224	11,325	(8,295)
Income Tax Provision	388	3,833	4,315	1,669	1,492	2,083	4,945	922
Income (Loss) From Continuing Operations	11,632	9,009	10,374	4,405	10,192	8,141	6,380	(9,217)
Discontinued Operations								
Earnings (loss) from discontinued operations	–	1,410	6,738	4,651	6,532	1,978	1,819	(399)
Gain on disposal of discontinued operations	–	25,000	–	–	–	–	–	–
Income (Loss) From Discontinued Operations	–	26,410	6,738	4,651	6,532	1,978	1,819	(399)
Net Income (Loss)	$ 11,632	$ 35,419	$ 17,112	$ 9,056	$ 16,724	$ 10,119	$ 8,199	$ (9,616)
***Per Common Share Data**								
Continuing operations	$ .04	$ .02	$ .03	$ (.01)	$ .04	$ .02	$ –	$ (.40)
Discontinued operations	–	.20	.05	.03	.06	.02	.03	(.01)
Earnings (Loss)	$ .04	$ .22	$ .08	$ .02	$ .10	$ .04	$ .03	$ (.41)

In late 1988, the Company announced its decision to divest the Aerospace Division. In 1989, the Company rescinded its decision and has reconsolidated this division's operations beginning October 1, 1989. In addition, BOMAG was reconsolidated beginning April 1, 1988.

*Per common share data have been calculated on a quarterly basis using the weighted average shares outstanding during each quarter.

	1989	1988
Operating Results ($ Millions)		
Sales	1,402	1,289
Income (loss) from continuing operations before income taxes	45	25
Income taxes (benefit)	10	10
Income (loss) from continuing operations	35	15
Income (loss) from discontinued operations	38	10
Net income (loss)	73	25
Cash dividends	45	24
Financial Condition and Ratios ($ Millions)		
Working capital	358	494
Current ratio	2.2	2.3
Total assets	1,019	1,187
Net fixed assets	117	130
Depreciation	15	16
Additions to fixed assets	17	12
Long-term debt (including current portion)	179	318
Shareholders' equity	524	542
Return on average common shareholders' equity	15.5	1.0
Per Common Share Data ($)		
Income (loss) from continuing operations	.08	(.11)
Discontinued operations	.28	.12
Earnings (loss)	.36	.01
Common dividends paid in cash	.15	–
Book value	2.42	2.22
Shareholders and Employees		
Number of common shareholders	3,418	3,627
Number of employees	10,189	11,902
Number of common shares outstanding (thousands)	135,482	135,482

Per common share data, except book value, have been calculated based upon the weighted average number of shares outstanding during each year.

Per common share information for income (loss) from continuing operations and earnings (loss) per common share are calculated by deducting dividends applicable to preferred shares from the respective amounts and dividing the result by the weighted average number of common shares outstanding during each year. Book value per common share has been calculated by deducting preferred shares from shareholders' equity and dividing the result by the number of common shares outstanding at each year-end.

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada. If accounting principles generally accepted in the United States were applied, the net income and the related per share amounts for 1989 and 1988 would amount to approximately $88 million, $49 million, $.47 and $.31, respectively and the net loss and related per share amounts for 1987 and 1986 would amount to approximately $209 million, $94 million, $6.09 and $3.08, respectively. The impact on net income (loss) in all other years would be immaterial. In addition, in 1989, $2 million of Redeemable Preferred Shares Series 1 ($46 million in 1988, $47 million in 1987, $50 million in 1986, $59 million in 1985 and $60 million in 1984 and 1983) and $40 million of Redeemable Preferred Shares Series 3 in 1989, 1988 and 1987 ($43 million in 1986 and $55 million in 1985) would not be classified in the shareholders' equity caption but would be shown separately. See Note 12 to the Consolidated Financial Statements.

In 1989, the Company sold the Industrial Automation segment. The results of operations of this segment have been separately classified as part of "Discontinued operations." See Note 2 to the Consolidated Financial Statements.

In 1989, the Company adopted, retroactively, new Canadian accounting standards for the presentation of extraordinary and unusual items. As a result of these accounting changes, previously reported results have been restated. These changes do not affect net income as previously reported. See Note 1 to the Consolidated Financial Statements.

1987	1986	1985	1984	1983	1982	1981	1980
974	951	1,102	1,028	929	930	1,080	846
(32)	(49)	(16)	(24)	(51)	14	65	55
3	28	(13)	(21)	(43)	(17)	26	17
(35)	(77)	(3)	(3)	(8)	31	39	38
(153)	4	20	1	(31)	17	31	11
(188)	(73)	17	(2)	(39)	48	70	49
31	23	21	41	33	29	27	23
252	367	344	352	262	282	310	195
1.6	1.8	1.6	1.8	1.5	1.5	1.5	1.4
956	1,432	1,593	1,479	1,460	1,540	1,351	1,103
114	179	250	289	300	326	198	181
12	14	18	16	17	16	16	12
20	17	33	19	13	21	41	25
369	591	514	464	469	408	333	199
283	491	591	539	443	462	368	334
–	–	–	–	–	11.5	20.0	15.2
(1.50)	(2.63)	(.64)	(.27)	(.21)	.91	1.25	1.22
(4.02)	.11	.53	.03	(.82)	.51	.94	.31
(5.52)	(2.52)	(.11)	(.24)	(1.03)	1.42	2.19	1.53
.25	–	–	1.00	1.00	1.00	1.00	.85
1.09	6.38	8.44	8.51	10.08	12.29	11.64	10.58
3,545	4,007	4,898	5,362	5,809	6,766	5,733	5,810
9,985	8,880	15,426	16,226	15,408	16,748	21,779	16,235
34,787	34,769	34,014	33,342	33,226	32,887	26,891	26,853

Annual Meeting of Shareholders
The annual meeting of shareholders will be held in Ballroom A, L'Hotel, 225 Front Street West, Toronto, Ontario, Canada, on Tuesday, April 24, 1990 at 2:00 p.m.

Stock Exchanges and Symbol
Toronto, New York, Montreal (AIL)

Transfer Agent and Registrar
Canada – Montreal Trust Company (Common and Preferred Shares: Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver)
United States – Manufacturers Hanover Trust Company (New York)

Stock Ownership
Canadian Pacific Enterprises Limited, a corporation 100 percent-owned by Canadian Pacific Limited, owns 55.41 percent of the Company's outstanding common shares.

Dividend Information
Cash dividends per share were paid in 1989 as follows:

US $0.15 on common shares.

Cdn.$2.21 on preferred shares Series 1, Cdn.$2.375 on convertible preferred shares Series 2, Cdn.$2.3125 on preferred shares Series 3.

Taxation of United States Shareholders
Under the terms of the Income Tax Act (Canada) and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of AMCA International Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15 percent.

Generally, capital gains on the disposition by United States residents of securities issued by AMCA International Limited are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long-term resident of Canada.

Investor Relations
Institutional investors, brokers, security analysts and others desiring information about AMCA International should contact: J. B. Twombly, Senior Vice President and Treasurer, AMCA International, 2300 One First Union Center, Charlotte, NC 28202-6039.

A copy of the Company's 1989 Form 10-K to the U.S. Securities and Exchange Commission, without exhibits, is available upon request. Copies of previous annual reports and quarterly reports also are available. Please address requests to: Corporate Communications, AMCA International, 2300 One First Union Center, Charlotte, NC 28202-6039.

Common Share Market Prices

	Toronto Stock Exchange				New York Stock Exchange			
	1989		1988		1989		1988	
	High	Low	High	Low	High	Low	High	Low
	(Canadian Dollars)				(US Dollars)			
First Quarter	4.95	3.70	9.375	5.25	4 1/8	3 1/8	7 1/8	4 3/8
Second Quarter	4.90	4.25	6.375	3.25	4 1/8	3 5/8	5 1/8	2 5/8
Third Quarter	4.80	4.05	5.25	4.50	4	3 3/8	4 3/8	3 5/8
Fourth Quarter	4.35	3.80	4.80	3.75	3 3/4	3 1/4	4	3 1/8
Year	4.95	3.70	9.375	3.25	4 1/8	3 1/8	7 1/8	2 5/8

At the end of December 1989 the closing price was Cdn.$4.15 on the Toronto Stock Exchange and $3.625 on the New York Stock Exchange.

Directors

Robert W. Campbell (1979)
Director, Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

James E. Courtney (1989)
Vice Chairman, M. A. Hanna Company
(International formulated polymers company with interests in natural resources)

‡**Robert E. Field** (1989)
Vice President and Treasurer, Dartmouth College

‡**James A. Grant** (1989)
Managing Partner, Stikeman, Elliott (Law firm)

***James F. Hankinson** (1986)
Executive Vice President, Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

***William R. Holland** (1985)
Chairman and Chief Executive Officer, AMCA International Limited

Robert C. Kelley (1989)
President and Chief Operating Officer, AMCA International Limited

†**H. John McDonald** (1989)
Chairman, Black & McDonald Limited
(International mechanical and electrical contracting firm)

‡**C. Douglas Reekie** (1984)
Vice Chairman, CAE Industries Ltd.
(Holding and management company)

†**Dalton D. Ruffin** (1974)
Corporate Director

I. Barry Scott (1989)
Chairman and Chief Executive Officer, CP Rail
(Transportation company)

*†**William W. Stinson** (1986)
Chairman, President and Chief Executive Officer, Canadian Pacific Limited
(Transportation, resource development and manufacturing company)

Arthur Temple (1984)
Chairman, Temple-Inland Inc.
(Forest products company)

*Member, Executive Committee
†Member, Management Resources and Remuneration Committee
‡Member, Audit Committee

Officers

Corporate Officers

William R. Holland
Chairman and Chief Executive Officer

Robert C. Kelley
President and Chief Operating Officer

***Frank J. Stevenson**
Executive Vice President

John A. Davis
Senior Vice President
(General Counsel, Secretary)

†**John J. Reynolds**
Senior Vice President

Joseph A. Scopelliti
Senior Vice President
(Chief Financial Officer)

Julian B. Twombly
Senior Vice President
(Treasurer)

*Also President, Engineering Services
†Also President, Food Equipment

B. Bernard Burns
Vice President

William Dries
Vice President
(Controller)

Robert E. Drury
Vice President

J. Leckie Rives
Vice President

Joseph F. Sherer
Vice President

Other Operating Management

Robert T. Ammerman
President, AMCA Buildings

I. B. Prude
President, AMCA Construction

Allan H. Francis
Executive Vice President
Dominion Bridge

Anton Schwarzinger
President, BOMAG

Construction Products and Services

AMCA Buildings

Varco-Pruden: Produces pre-engineered buildings for non-residential use including Quonset agricultural buildings. Headquarters in Tennessee with operations in Alabama, Arkansas, California, Missouri, North Carolina and Wisconsin.

Stran: Produces pre-engineered buildings for non-residential use. Headquarters in Tennessee with operations in Georgia and Ohio.

AMCA Construction

JESCO: Provides design, engineering and construction of industrial and commercial buildings; general contracting services. Headquarters in Mississippi with operations in Alabama, Mississippi and Virginia.

ENCORP: Provides design, engineering and construction of industrial, commercial and government facilities; general contracting services. Located in Ohio.

Dominion Bridge

Dominion Bridge: Provides custom steel fabrication and erection services; construction services. Headquarters in Ontario with operations across Canada.

Engineering Services

Engineering Services

Litwin Companies: Includes Litwin Engineers & Constructors, Litwin Corporation and ORBA. Litwin provides design, engineering and construction services for oil refineries and petrochemical plants. ORBA designs, engineers, constructs and operates bulk material handling systems and terminals. Located in Texas.

Litwin S.A.: Provides design, engineering and construction services to worldwide petroleum and chemical processors. Located in France.

MENCK: Designs and builds pile-driving hammers and related equipment. Located in West Germany.

Industrial Products

Food Equipment

Cherry-Burrell: Manufactures process and packaging equipment for food, dairy, beverage, pharmaceutical and cosmetics industries. Headquarters in Iowa with operations in Iowa and New York.

Votator: Manufactures processing equipment for food, meat and chemical industries. Located in Kentucky.

Superior Stainless: Manufactures sanitary fittings and valves used in the food industry. Located in Wisconsin.

Waukesha Pumps: Manufactures and distributes sanitary rotary positive displacement pumps used in the food industry. Located in Wisconsin.

Compaction Equipment

BOMAG: Designs and manufactures soil compaction and sanitary landfill equipment. Headquarters in West Germany with operations in Ohio and Austria, Canada, France, Great Britain and West Germany.

Aerospace

Fenn Manufacturing: Produces precision aerospace components and metal forming machinery. Located in Connecticut.

Monroe Forgings: Produces alloy metal forged rings, bars and discs. Located in New York.

AMCA INTERNATIONAL

AMCA International Limited

200 Ronson Drive
Toronto, Ontario M9W 5Z9

2300 One First Union Center
Charlotte, North Carolina 28202-6039